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STATEMENT OF  
NATIONAL TREASURY EMPLOYEES UNION  
TO THE  
EMPLOYMENT AND HOUSING SUBCOMMITTEE  
COMMITTEE ON GOVERNMENT OPERATIONS  
U.S. HOUSE OF REPRESENTATIVES  
HONORABLE TOM LANTOS, CHAIRMAN  
ON  
FEASIBILITY OF ESTABLISHING FLEXIBLE BENEFIT PLANS  
FOR FEDERAL WORKERS

MARCH 1, 1988

Mr. Chairman and distinguished members of the subcommittee:

Thank you for providing the National Treasury Employees Union (NTEU) the opportunity to state its view on the feasibility and desirability of establishing flexible benefit plans for federal workers. NTEU is the exclusive representative for over 120,000 active and retired federal workers. Since its inception this union has continuously and aggressively sought to expand and protect federal employees' benefits. Consistent with this role, NTEU is pleased to state its position with regard to the establishment of cafeteria plans and/or flexible spending accounts (FSAs) for federal workers.

A cafeteria compensation plan is a viable option for some federal employees who could benefit from the flexibility such a program offers. However, NTEU would support a move away from the current system of traditional benefits plans only if the individual employee elected to do so; and those employees who so elected were able to maintain a comparable level of coverage without experiencing an increase in their level of contributions. FSAs would also benefit federal employees by permitting them to use pre-tax dollars to pay for services not otherwise offered in a benefit plan. However, FSAs should be used only with full knowledge of the risks involved. For example, the prospect of forfeiture could seriously diminish their value to some employees.

Establishment of flexible benefit plans as an option for federal employees should be done on an agency-by-agency basis, with minimal guidance from the Office of Personnel Management (OPM). Keeping operation and control at the agency level provides the opportunity for greater employer flexibility and innovation in meeting employees' needs. This degree of delegation of authority also avoids the inevitable inertia attached to any project OPM is required to establish. Finally, the initiation and formulation of flexible benefit plans must include union-agency negotiations for those employees represented by a union, as employee acceptance is necessary if flexible benefits plans are to work.

It is a well documented phenomenon that there have been significant demographic changes in the workforce in the last thirty years. The traditional family structure, which included a husband and a wife who did not work outside the home, is today in the minority. Currently, there are almost as many women in the workforce as there are men. There are also more unmarried individuals in a younger workforce, and more single-parent head of households.

These demographic changes portend the need for a diverse fringe benefits system, which goes beyond the standard package plans currently offered federal employees. However, it would be a grave mistake to use the advent of flexible benefit plans as a means of reducing the government's rate of contribution to the health care costs of federal employees. Currently, federal employees' wages lag about twenty-four percent behind wages for

private sector employees. Many valuable federal employees are leaving government service, and agencies have found it increasingly difficult to attract new employees, despite the use of special pay rates. If handled properly, the introduction of flexible benefits plans, in the form of cafeteria benefits plans and FSAs, would be an excellent recruitment and retention tool.

A cafeteria benefit plan would, as stated above, be of increased value to workers who do not fit into the family unit stereotype of thirty years ago. In addition, this option would help equalize benefits among federal employees, many of whom do not derive any benefit from the standard health care programs because their spouse is also a federal employee. There is also the obvious advantage that employees would be paying their portion of the contribution with pre-tax dollars.

NTEU is concerned, however, that an option which could be of real value to federal employees will be distorted, and used as just another means of cutting the cost of government, thereby placing more burden on the backs of federal employees. To avoid this result, a cafeteria benefits plan acceptable to NTEU must contain a formula for pricing optional benefits or providing employees credits toward purchase of benefits which ensures that the percentage of the participating employees' contribution share of the premium will not increase when compared to the percentage of the employees' share under the current system.

An additional problem is that this Administration will undoubtedly oppose any cafeteria benefits plan which did not contain a pricing formula more favorable to the government than the current system. The Reagan Administration has been historically anti-federal employee, and will not miss this opportunity to take another swipe at the federal workforce. The likelihood of opposition from the Administration is enhanced by the fact that the initial and administrative costs associated with cafeteria benefits plans are substantial. Our concern, however, is not opposition from the Administration, but their attempt to lower the percentage of the government's contribution.

FSAs are of value to employees because they permit the use of pre-tax dollars for benefits not found in the standard benefits plan. For example, an employee could establish an account for child care or legal services. However, there are a number of undesirable aspects of FSAs, including advance elections, forfeiture of unused money in an account, and the fact that money from one account may not be used for another.

An extensive effort would be necessary to properly educate employees as to their options within a cafeteria benefits plan, especially those that include FSAs. Employees must fully understand not only the advantages an option offers, but the concomitant risk or financial liability.

In summary, NTEU believes cafeteria benefits plans, if properly designed, offer the federal workforce better value for their benefit dollars. This, in turn, would serve to enhance

recruitment and retention activities. To accomplish these goals, however, the pricing formula for optional benefits or benefit credits must not increase the percentage of the employees' contribution share of the premiums.

To be well received cafeteria benefits plans and FSAs must accurately reflect the needs of the workforce, and employees must be adequately educated. This is best done on an agency-by-agency basis, with minimal oversight by OPM. Where employees are represented by a union, negotiations will determine initiation and/or implementation of cafeteria benefits plans and FSAs.